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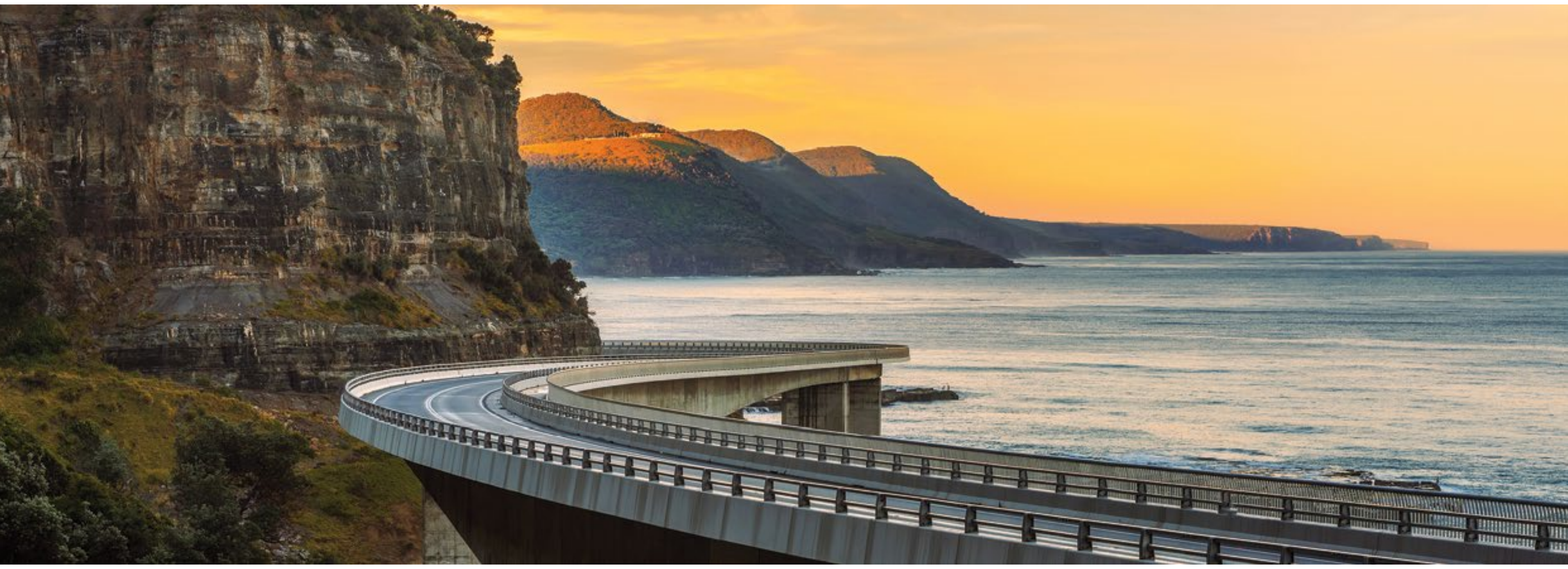

October 2021

It's October and the countdown to summer begins. Despite ongoing lockdowns, rising vaccination rates are paving the way for the re-opening of borders and business.

September was a mixed bag on the economic front. After reaching record highs in August, global sharemarkets stumbled in late September. There are concerns about rising inflation and bond yields if the US Federal Reserve begins tapering their bond purchases later this year as expected. Markets also grappled with rising COVID cases, the potential collapse of the Chinese property developer Evergrande, supply chain blocks and rising oil prices. The US S&P500 and the Australian ASX200 finished the month down 5% and 3% respectively.

In Australia, consumer confidence is growing in response to State and Federal governments revealing their re-opening plans. The ANZ/Roy Morgan consumer confidence rating rose over the last three weeks of September to a 10-week high of 103.7. Prior to that, retail trade fell 1.7% in August and 0.7% over the year. And while the unemployment rate fell from 4.6% to 4.5% in August, participation and hours worked all fell. This reflects the large numbers of Australians who have been stood down due to COVID but not actively seeking work.

On commodity markets, oil prices surged almost 10% to three-year highs in September. That pushed up local petrol prices, with unleaded petrol at record highs in some cities. Meanwhile, iron ore prices fell 25% in September on falling Chinese demand. This put downward pressure on Australian mining shares and the Aussie dollar, which fell by one cent to finish the month at US72.2c.

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SPOTLIGHT ON SUPER PERFORMANCE

Superannuation has provided most fund members with stellar returns since last year's COVID lows. As always though, some funds performed better than others and recent government reforms make it easier to find out how your fund compares.

Indeed, you may have noticed recent media reports naming 13 super funds that failed a performance test conducted by the super industry regulator, the Australian Prudential Regulation Authority (APRA).[i]

While the news may have come as a shock to members of those funds, it's important to understand the aims and limitations of the new test.

Background to super reforms

Under the federal government's *Your Super, Your Future* reforms passed in June, super funds that fail to meet an annual performance test must notify their members about their underperformance. Funds that fail the test for two consecutive years won't be able to accept new members until their performance improves or they merge with another fund.[ii]

The government has also made it easier to compare funds. As of July 1, anyone can jump onto the ATO's new YourSuper comparison tool, which ranks funds by fees and investment returns. For now though, the tool only compares MySuper funds which are the default products for employees who don't choose a fund.

While it's hard to argue with any initiative that aids transparency and protects people from poorly performing super funds, caution is needed when interpreting the super tool.

Compare like with like

When you compare super funds, it's important to compare like with like. Awarding funds a simple pass or fail does not take into account a variety of factors such as the risk and return trade-off in investment options and whether the fund is a lifecycle product that reduces risk as a member ages.

Conservative options with a higher percentage of cash and fixed interest investments tend to deliver more modest returns in the long run but with a smoother ride along the way. Whereas balanced and growth options with a higher allocation to shares may deliver higher returns in the long run but with more volatility.

That means a fund may underperform in the short term but still provide members with their desired level of risk and returns. Working out the most appropriate option for you will also depend on when you plan to retire and how much longer your money will be invested in the market. Generally, the shorter your time frame, the more conservative you are likely to be.

The YourSuper comparison tool also doesn't consider the value of insurance offered by funds or other member services.

The value of advice

While the government's super reforms are aimed at those who may not be engaged with their super or understand how their savings are being managed, you don't need to go it alone. This is where our expertise can assist, ensuring your choices are tailored to your circumstances and guiding your decision.

In fact, a recent study by Russell Investments quantified the value of advice. It found that financial advisers added an estimated 5.2 per cent in value to their clients' portfolios in the tumultuous period from the beginning of the pandemic through to the market's stunning recovery by mid-2021.[iii]

The report broke down this figure of 5.2 per cent into five key elements:

- Preventing behavioural mistakes, like switching to cash and crystallising your paper losses after a market fall (2 per cent)
- Advising on appropriate asset allocation (1.1 per cent)
- Optimising cash holdings (0.6 per cent)
- Tax-effective investing and planning (1.5 per cent)
- Expert wealth management knowledge derived from years of market experience – priceless.

The report found the beneficial impact for an investor who started 2020 with a portfolio worth $250,000 and stayed in the market until 31 May this year – rather than switching to cash when markets were volatile in March 2020 – was as large as $40,000.

The bottom line

It's important for all investors to understand how their super is performing. Even more important though, is having a financial plan that takes into consideration not just your choice of super fund, but all your personal goals and circumstances.

If you would like to discuss your super in the context of your overall investment strategy, give us a call.

i https://www.apra.gov.au/news-and-publications/apra-releases-inaugural-your-future-your-super-performance-test-results

ii https://www.apra.gov.au/your-future-your-super

iii https://russellinvestments.com/us/resources/financial-professionals/value-of-advisor

DECISION MAKING

YOUR WAY TO THE BEST OUTCOME

Throughout our lives, making a decision is something we do thousands of times a day. Our first thought occurs as soon as we wake, and our final thought when we drift off to sleep. Researchers have found on average, that most people will have approximately 6,200 thoughts per day.[i]

Having so many thoughts requires us to make thousands of decisions. Whilst majority of these decisions are simple and will have no significant consequence, there are times when more difficult and complex decisions will need to be made and require creative thinking techniques and a deeper thought process to ensure a more successful outcome.

Deep thinking vs shallow thinking

Two types of methods can be used when it comes to decision-making and while neither is right nor wrong, it's important to understand the difference between the two and choose the method that works best for you and the situation. After all, if we all thought the same way, life would be pretty boring right?

Deep thinking requires effort and mindfulness and someone who is considered a deep thinker will usually look at the whole chain of events throughout this thought process. They will explore different pathways to reach different outcomes and have a greater understanding of the consequences based on that specific decision.

Contrary to deep thinking is shallow thinking, and these decisions are instinct-driven – they are made immediately. This type of thinker is decisive and won't necessarily spend time exploring different pathways to reach an outcome or consider the consequences of their decisions as much as a deep thinker would.

Can you learn to become a deep thinker?

Some may say, with so much technology and information on hand, shallow thinking is now far outweighing the deep thought process and we are losing the ability use these creative thinking skills to make certain choices. Our attention span is limited; we are distracted easily therefore, our thought process is constantly being interrupted, meaning we spend less time thinking about the outcomes of the choices we are making.

There are several steps you can implement to learn how to become a deep thinker. Firstly, you must fully understand the situation in detail – what is being asked and what impact it will have – only then, can you spend time creating a constructive environment to make decisions. In creating a constructive environment, you will need to determine whether other people should be included in this process.

By including others, you have the opportunity to take into account other people's ideas. This is a fantastic way to explore ideas that you may not have previously considered and give the process the time and attention it deserves. Once you have reviewed all options, you can determine the risks and impacts of each, then decide what the best outcome is likely to be.

Alternate ways to make decisions

Some decisions won't be as complex or require the same level of creative thinking to make the right choice. Some alternate options could be as simple as – sleep on it. While this may seem like a 'no brainer', this can be one of the most effective ways to make a decision. While you are sleeping, your subconscious is still hard at work.

Talk to friends, relatives, or colleagues whose opinion you value - they can offer a different perspective if you are unsure about your decision.

Schedule a specific time in the day to help you focus – do you do your best thinking in the morning, afternoon, or evening. Remember, to focus completely, you need to remove all distractions during this time - turn off your email notifications and put your phone on silent.

If the decision is work-related, try delegating tasks as this could help reduce stress if work is piling up.

Change your environment – going for a walk or meditating can help you relax which then allows you to free space in your mind and shed new light on the way you think.

No right or wrong

Remember, there is no right or wrong when it comes to making decisions. Whether they are personal or business-focused, by applying some of these methods, you may alleviate stress and reach a better outcome when you next make a decision.

i https://www.newshub.co.nz/home/lifestyle/2020/07/new-study-reveals-just-how-many-thoughts-we-have-each-day.html

Time to review your income protection cover?

If you've owned an individual income protection or salary continuance policy in recent years, you may have seen your premiums increase as insurers struggled to cover their large losses on these products.[i]

Given the ongoing competition and generous features in some products, the Australian Prudential Regulation Authority (APRA) has decided it's time for some new rules to ensure income protection cover remains sustainable and affordable for customers.

This will result in sweeping changes to these types of policies from 1 October 2021, so it's essential to review your insurance protection cover before insurers start altering their product offerings.

What is income protection?

Income protection cover protects your most valuable asset – your ability to earn an income. It acts as a replacement income if you are injured or disabled and will help support your family and current lifestyle while you recover.

What's more, your premiums are generally tax-deductible, so they can potentially help reduce your tax bill.

Major changes to income protection

Reform of income protection policies started back on 1 April 2020, when insurers were no longer permitted to offer customers Agreed Value income protection policies. Agreed value income protection provided more certainty about the amount you would be paid if you claimed and was based on your best 12 months earnings over a three-year period.

Following this initial change, APRA is implementing further changes from 1 October 2021 that will make new income protection policies much less generous. The reforms mean insurers will be offering new policies that base insurance payments on your annual income at the time you make a claim (or the previous 12 months), not on an agreed earnings amount.[ii]

For people with a fluctuating income, insurance payments will be based on your average annual earnings over a period appropriate for your occupation and will reflect future earnings lost due to the disability.

To further reduce costs, new policies will no longer offer supplementary benefits like specified injury benefits.

Limits on income payments

Other changes include a requirement for the maximum income replacement payment for the first six months to be capped at 90 per cent of earnings, reducing to 70 per cent after six months.[ii] If your insured income amount excludes superannuation, the Superannuation Guarantee can be paid in addition to the 90 per cent cap.

One of the most significant changes is that the terms and conditions of an existing income protection policy will no longer be guaranteed until age 65. Policies will no longer be offered for longer than five years, so your policy and its terms will be reviewed every five years.

You won't need to undergo medical review, but any changes to your occupation, financial circumstances or taking up a dangerous pastime will need to be updated in the policy. Even if your circumstances remain the same, you will still be required to review the policy.

If your policy has a long benefit period, you are also likely to face a tighter definition of disability, rather than the previous definition of simply being unable to perform your 'normal job'. APRA is keen to ensure claimants who are able to return to some form of paid employment do so, rather than remaining at home and receiving a payment.

Impact on existing and new policies

So what does this mean for you?

If you currently have an income protection policy outside your super, you will not be immediately affected by these changes, but it would be wise to check your policy is still appropriate for your circumstances.

Given the extent of the changes to income protection cover, if you have let your insurance lapse or don't currently have income protection, it could make sense to consider signing up before 1 October 2021 to take advantage of the more generous current arrangements.

Income protection is often overlooked because of a perception that it's too costly or not essential, but like all insurance, the cost of not being insured can be far greater. This type of cover offers valuable benefits that should be a key component in your wealth creation - and preservation - strategy.

If you would like help reviewing or selecting appropriate income protection cover, call our office today.

i https://www.apra.gov.au/news-and-publications/apra-resumes-work-to-enhance-sustainability-of-individual-disability-income

ii https://www.apra.gov.au/final-individual-disability-income-insurance-sustainability-measures